FISCAL NOTE

Bill #: **HB0086**

Title: Reduce business personal property tax to 3% -- reimburse local governments

Primary Sponsor: **Diana Wyatt**

Status: As introduced

Sponsor signature Date

Dave Lewis, Budget Director Date

Fiscal Summary

	FY2000 Difference	FY2001 Difference
Expenditure:		
General Fund (01)	2,517,000	(5,012,000)
Revenue:		
General Fund (01)	($41,526,879)	($41,526,879)
Net Impact on General Fund Balance:	**($44,043,879)**	**($36,514,879)**

Yes	No		Yes	No	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. The proposal is effective January 1, 1999.
2. The portion of the taxable value of the business equipment that is not liened to real property is 38% (MDOR). Because of this, reducing the tax rate of class 8 property in tax year 1999 will result in a revenue loss in FY1999.
3. There is no reimbursement in FY1999 (see technical note 1).
4. It is estimated that the property tax revenue loss in FY1999 is $3,844,866 to the general fund, $520,358 to state special revenue fund (university 6 mill and state assumption of welfare 9 mill), and $11,213,710 to local governments.

5. This revenue loss is not reimbursed.For fiscal years 2000 through 2006, due to the reimbursement provided in the proposal, revenue loss to State Special Revenue Funds and local governments is a factor of the change in market value of class 8 property and mill levies in the affected taxing jurisdiction. If the market value of class 8 property in a taxing jurisdiction for tax year is greater than the market value of class 8 property in the base year, then the proposal results in a revenue loss (assumed that the mill levy has not changed). Conversely, if the market value of class 8 property in a taxing jurisdiction for tax year is less than the market value of class 8 property in the base year, then the proposal results in a revenue gain (assumed that the mill levy has not changed).
6. The reimbursements to the general fund, state special revenue funds and local governments will be appropriated from the general fund.
7. The reimbursements are based on FY2000 reimbursements (see technical note 1).
8. It is estimated that the annual amount to be reimbursed for fiscal years 2000 through 2006 will be $41,526,879.
9. The reduction in taxable values will cause school districts to increase GTB levies in FY2000 to maintain minimum budgets required under section 20-9-308(1)(a), MCA,(see technical note 4). The higher levies will increase the amount of state GTB aid by $2,517,000 in FY2000. In subsequent years the statewide GTB will be adjusted.
10. Reimbursements to schools for lost taxes due to the reduction of assessed values under this bill will be distributed to schools in FY2000 but not included in budget calculations until FY2001. The reimbursements will be received as nonlevy revenue to reduce GTB levies. The net effect in FY2001 from reduced GTB levies will be a reduction is state GTB costs of $5,012,000.

FISCAL IMPACT:

It is estimated that the property tax revenue loss in FY1999 is $3,844,866 to the general fund, and $520,358 to state special revenue fund (see assumptions 1 and 2).

	FY2000 Difference	FY2001 Difference
Expenditures:		
Local Assistance – School GTB	2,517,000	(5,012,000)
Funding:		
General Fund	2,517,000	(5,012,000)
Revenues:		
General Fund (01)	($41,526,879)	($41,526,879)
Net Impact to fund balance (Revenue minus Expenditure)		
General Fund (01)	($44,043,879)	($36,514,879)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES:

It is estimated that the property tax revenue loss in FY1999 is $11,213,710 to local governments (see assumption 1 and 2).

Due to the reimbursements, the impact to local governments in future years is dependent upon the change in class 8 market value and mill levies (see assumption 5).

The reduction in property tax value resulting from this bill will cause some school districts which budget at the BASE level, the minimum required under section 20-9-308 (1)(a), MCA, to increase taxes to maintain the minimum budget. Such increases will require a vote under provisions of CI75.

LONG-RANGE IMPACTS:

The long-range impact of the proposal is driven by the reduction of the taxable rate of class 8 property from 6% to 3%. For the first few years, the general fund bares the loss in revenue ($41,526,879). Eventually, as the reimbursement phases out, all governments realize the impact of the rate reduction.

TECHNICAL NOTES:

1. The reimbursements begin in the fiscal year beginning July 1, 1999 (Section 1(2) of the proposal) which is fiscal year 2000. References to reimbursements made in fiscal year 1999 are assumed to mean reimbursements made in fiscal year 2000.
2. School districts are required to budget at the BASE level under section 20-9-308 (1)(a), MCA. With the reduction in taxable values under this bill, provisions of CI75 will require voter approval to increase tax rates to continue to meet the minimum budget requirement. If voters do not approve the increase the district will be in violation of section 20-9-308, MCA.